FORTISALBERTA INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the three months ended March 31, 2011

Dated May 2, 2011

The following discussion and analysis of financial condition and results of operations of FortisAlberta Inc. (the "Corporation") should be read in conjunction with the Corporation's unaudited financial statements for the three months ended March 31, 2011 and the Management's Discussion and Analysis ("MD&A") and the audited financial statements for the year ended December 31, 2010. The financial information presented in this document has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP" or "Canadian GAAP") and is in Canadian dollars unless otherwise specified.

FORWARD-LOOKING STATEMENTS

The Corporation includes forward-looking information in the MD&A within the meaning of applicable securities laws in Canada ("forward-looking information"). The purpose of the forward-looking information is to provide management's expectations regarding the Corporation's future growth, results of operations, performance, business prospects and opportunities and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on information currently available to the Corporation's management.

The forward-looking information in the MD&A includes, but is not limited to, statements regarding: the Corporation's expectation on remaining a regulated electric utility; the Corporation's expectations relating to the conduct, outcome and timing of regulatory hearings and other litigation matters; the Corporation's expectation to generate sufficient cash required to complete planned capital programs from a combination of long-term debt and short-term borrowings, internally generated funds and equity contributions; the Corporation's belief that it does not anticipate any difficulties in accessing the required capital on reasonable market terms; and the Corporation's forecast gross capital expenditures for 2011. The forecasts and projections that make up the forward-looking information are based on assumptions that include, but are not limited to: the Corporation's current business plans; the Corporation's understanding of the regulatory environment; the advice provided to the Corporation by its advisors; the receipt of applicable regulatory approvals and requested rate orders; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; the Corporation's ability to maintain its electricity systems to ensure their continued performance; the commercial development of alternative sources of energy; favourable economic conditions; the level of interest rates; access to capital; maintenance of adequate insurance coverage; the ability to obtain licences and permits; retention of existing service areas; favourable labour relations; and sufficient human resources to deliver service and execute the capital program.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors that could cause results or events to differ from current expectations include, but are not limited to: legislative and regulatory developments that could affect costs, revenues and the speed and degree of competition entering the electricity distribution market; loss of service areas; costs associated with environmental compliance and liabilities; costs associated with labour disputes; adverse results from litigation; timing and extent of changes in prevailing interest rates; inflation levels; weather and general economic conditions in geographic areas where the Corporation operates; results of financing efforts; counterparty credit risk; and the impact of accounting policies issued by Canadian or provincial standard setters.

All forward-looking information in the MD&A is qualified in its entirety by the above cautionary statements and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

THE CORPORATION

The Corporation is a regulated electricity distribution utility in the Province of Alberta. Its business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers. The Corporation does not own or operate generation or transmission assets and is not involved in the direct sale of electricity. The Corporation has limited exposure to exchange rate fluctuations on foreign currency transactions. It is intended that the Corporation remain a regulated electric utility for the foreseeable future, focusing on the delivery of safe, reliable and cost-effective electricity services to its customers in Alberta.

The Corporation operates a largely rural, approximately 112,500 kilometre, low-voltage distribution network in central and southern Alberta, which serves approximately 493,000 electricity customers comprised of residential, commercial, farm, oil and gas, and industrial consumers of electricity.

The Corporation is regulated by the Alberta Utilities Commission (the "AUC") pursuant to the *Alberta Utilities Commission Act* (the "*AUC Act*"). The AUC's jurisdiction, pursuant to the *Electric Utilities Act* (the "*EUA*"), the *Public Utilities Act*, the *Hydro and Electric Energy Act* and the *AUC Act*, includes the approval of distribution tariffs for regulated distribution utilities such as the Corporation including the rates and terms and conditions on which service is to be provided by those utilities.

The Corporation operates under cost-of-service regulation as prescribed by the AUC. Rate orders issued by the AUC establish the Corporation's revenue requirements, being those revenues required to recover approved costs associated with the distribution business, and provide a rate of return on a deemed capital structure applied to approved rate base assets. The Corporation applies for tariff revenue based on estimated costs-of-service. Once the tariff is approved, it is not adjusted as a result of actual costs-of-service being different from that which was estimated, other than for certain prescribed costs that are eligible for deferral treatment and are either collected or refunded in future rates. When the AUC issues decisions affecting the financial statements, the effects of the decision are recorded in the period in which the decision is received.

The Corporation is an indirect, wholly-owned subsidiary of Fortis Inc. ("Fortis"), a diversified, international electricity and gas distribution utility holding company having investments in distribution, transmission and generation utilities, real estate and hotel operations.

REGULATORY MATTERS

2010/2011 Distribution Tariff Application

On June 16, 2009, the Corporation filed a comprehensive Phase I and II application for 2010 and 2011 electric distribution service rates with the AUC. On July 6, 2010, the AUC issued Decision 2010-309 (the "Decision") on the Corporation's 2010 and 2011 Phase I distribution tariff application. The Corporation submitted a compliance filing for its 2010 and 2011 Phase I distribution tariff application on August 30, 2010 that incorporated Decision 2010-309. On December 6, 2010, the AUC issued Decision 2010-560 approving the 2011 distribution revenue requirement of $368.3 million.

The regulated return on equity ("ROE") for 2011 was approved as 9.0 per cent on an interim basis in AUC Decision 2009-216. The AUC has initiated a proceeding to review the ROE and capital structure, which is discussed in further detail within the Outlook section.

Per Decision 2010-554, the AUC initiated a proceeding in respect of the Review and Variance Application to determine the prudence of capital expenditures related to the metering project above $104.3 million. A decision is expected in the second quarter of 2011.

On July 22, 2010, the AUC released Decision 2010-329 regarding the Corporation's Phase II distribution tariff application. The Corporation's Phase II rate design proposals were all effectively approved as filed. The Corporation submitted a Phase II compliance filing to obtain final approval of rates by customer class, to the AUC on September 10, 2010 based on the Phase I compliance filing with an effective date for new final rates and riders of January 1, 2011. On December 14, 2010, the Phase II compliance filing was approved in Decision 2010-576.

2012/2013 Distribution Tariff Application

On March 31, 2011, FortisAlberta filed its 2012/2013 distribution tariff application, or DTA. The Corporation is requesting approval of revenue requirements of $410.3 million in 2012 and $447.0 million in 2013, for rate increases of 8.2% and 6.9%, respectively. The rate increases are driven primarily by rate base growth associated with capital expenditures, which result in increased depreciation, interest and return on equity requirements. Net capital expenditures are forecast to be $379.5 million and $325.5 million in 2012 and 2013, respectively. The Corporation proposed a schedule for the DTA proceeding that would include a hearing in late October 2011 with a final decision expected in the first quarter of 2012.

Central Alberta Rural Electrification Association ("CAREA") Application

On October 1, 2010, the CAREA filed an application with the AUC seeking a declaration that, effective January 1, 2012, CAREA be entitled to serve any new customer wishing to obtain electricity for use on property within their service area and that the Corporation be restricted to serving only those that are not being served by the CAREA. The Corporation has intervened in the proceeding.

RESULTS OF OPERATIONS

Highlights

	Three Months Ended March 31		
($ thousands)	2011	2010	Increase / (Decrease)
Revenues	103,492	87,856	15,636
Operating costs	35,251	35,485	(234)
Depreciation	29,606	20,971	8,635
Amortization	3,317	3,211	106
Income before interest and income taxes	35,318	28,189	7,129
Interest expense	13,604	13,959	(355)
Income before income taxes	21,714	14,230	7,484
Income tax expense (recovery)	516	(231)	747
Net income	21,198	14,461	6,737

The following table outlines the significant increases/(decreases) in the Results of Operations for the three months ended March 31, 2011 as compared to March 31, 2010:

Item	Increase/ (Decrease) ($ millions)	Explanation
Net Income	6.7	The higher net income for the three months ended March 31, 2011 was primarily related to an increase in revenues and a decrease in interest expense, partially offset by increases in depreciation and amortization and income tax expense as described in further detail below.
Revenues	15.6	Electric revenue increased by a total of 13.9 for the three months ended March 31, 2011. Of this increase 15.1 was attributable to distribution rate increases and customer growth. Revenues in the first quarter of 2010 reflected only the interim rate increase, while the full rate increase for 2010 was recorded in the third quarter when the Decision was reached. Revenues in 2011 reflect the full impact of the rate increases associated with the Decision. In addition, franchise fee revenue, A-1 rider revenue, and changes in various revenue deferrals resulted in a net decrease of 1.2. Other revenue increased by 1.7 for the three months ended March 31, 2011. The increase is due primarily to an increase of 1.3 resulting from a gain on sale of property. The remaining increase in other revenue is due to a 0.4 increase in miscellaneous revenue.
Depreciation and Amortization	8.7	The increase for the three months ended March 31, 2011 was due to higher overall depreciation and amortization rates as approved by the Decision, which were not reflected in 2010 until the third quarter. In addition, there was an increase in capital assets related to system growth, as well as upgrades and replacement of assets within the Corporation's service territory.
Interest Expense	(0.4)	The decrease for the three months ended March 31, 2011 was attributable to allowance for funds used during construction ("AFUDC") and lower average drawings under the syndicated credit facility. This was partially offset by higher debt levels arising from the issuance of long-term debt Series 10-1 that took place in October of 2010 to finance increased capital assets, and an increase in interest rates charged on the syndicated credit facility.
Income Tax Expense (Recovery)	0.7	The increase in income tax expense for the three months ended March 31, 2011 was primarily due to the change in net customer deferrals subject to future income taxes without an offsetting regulatory liability or asset, resulting in an increase in future income tax expense compared to the same period in 2010. In addition, the Corporation recorded a current income tax expense of 0.2 in 2011 related to the sale of property.

Current Economic Conditions
If the Corporation issues new long-term debt and the interest rates are higher than what is approved in its rates, the additional interest costs incurred on long-term debt will not be recovered from customers in rates during the period that is covered by the approved rates. When the Corporation files its next distribution tariff application, it will include the actual interest cost of the long-term debt in its applied for rates with the expectation that the approved distribution rates would allow for the recovery of the actual interest costs. Other costs are similarly subject to change relative to what may be included in customer rates.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth certain quarterly information of the Corporation:

($ thousands)	Revenues	Net Income
March 31, 2011	103,492	21,198
December 31, 2010	99,452	17,185
September 30, 2010	109,911	19,180
June 30, 2010	91,243	17,396
March 31, 2010	87,856	14,461
December 31, 2009	86,326	15,373
September 30, 2009	84,015	15,458
June 30, 2009	81,004	17,204

There is no significant seasonality in the Corporation's operations.

Changes in revenues and net income from quarter to quarter are a result of many factors including regulatory decisions, energy deliveries, number of customer sites, growth of the distribution system, and changes in income tax expense due to fluctuations in future income tax expenses and recoveries due to changes in deferral account balances, availability of tax recoveries and levels of taxable income.

- Revenues increased by $4.0 million for the three months ended March 31, 2011 compared to the three months ended December 31, 2010 primarily due to distribution rate increases and customer growth. Net income increased for the three months ended March 31, 2011 compared to the three months ended December 31, 2010 by $4.0 million, due to the increase in revenues of $4.0 million and a decrease in operating costs of $2.3 million resulting from decreases of $3.9 million in contracted manpower and $0.6 million in other operating expenditures, partially offset by an increase of $2.2 million in salaries and wages. This is partially offset by an increase of $1.1 million in depreciation and amortization due to an increase in the depreciable base of assets, an increase of $0.5 million of interest expense, and an increase of $0.7 million in income tax expense.

- Revenues decreased by $10.5 million for the three months ended December 31, 2010 compared to the three months ended September 30, 2010 primarily as a result of the Decision being recorded in the third quarter of 2010. Net income decreased for the three months ended December 31, 2010 compared to the three months ended September 30, 2010 by $2.0 million due to the decrease in revenues of $10.5 million, an increase in operating costs of $4.7 million, an increase in interest expense of $0.3 million and a decrease in income tax recovery of $0.1 million. This was partially offset by a net decrease in depreciation and amortization of $13.6 million as a result of the Decision being recorded in the third quarter of 2010.

- Revenues increased by $18.7 million for the three months ended September 30, 2010 compared to the three months ended June 30, 2010 primarily as a result of the Decision. Net income increased for the three months ended September 30, 2010 compared to the three months ended June 30, 2010 by $1.8 million due to the increase in revenues of $18.7 million, a decrease in operating costs of $2.7 million, a decrease in interest expense of $1.0 million primarily due to AFUDC and an increase in income tax recovery of $0.4 million. This was partially offset by a net increase in depreciation and amortization of $21.1 million as a result of the Decision.

- Revenues increased by $3.4 million for the three months ended June 30, 2010 compared to the three months ended March 31, 2010. Net income increased for the three months ended June 30, 2010 compared to the three months ended March 31, 2010 by $2.9 million due to the increase in revenues of $3.4 million and decreased interest expense of $0.2 million due to the timing of drawings on the syndicated credit facility. This was partially offset by an increase in operating costs of $0.1 million, an increase in depreciation and amortization of $0.2 million primarily due to the increase in capital assets, and a decreased tax recovery of $0.4 million.

- Revenues increased by $1.5 million for the three months ended March 31, 2010 compared to the three months ended December 31, 2009. Net income decreased for the three months ended March 31, 2010 compared to the three months ended December 31, 2009 by $0.9 million, due to increases in operating costs of $1.9 million, increased interest expense of $0.5 million due to the issuance of the Series 09-2 debentures in October 2009 and a decreased tax recovery of $0.4 million due to the reversal of deferrals in the first quarter of 2010. This was partially offset by a decrease in depreciation and amortization of $0.4 million primarily due to the capitalization of depreciation on vehicles and tools used in the construction of other assets, which offset the effect of the increase in capital assets.

- Revenues decreased by $1.8 million for the three months ended December 31, 2009 compared to the three months ended September 30, 2009, but were offset by the cumulative annual impact of $4.1 million from the Generic Cost of Capital Decision 2009-216, resulting in a net increase of $2.3 million in revenues. Despite this increase in revenue, net income decreased for the three months ended December 31, 2009 compared to the three months ended September 30, 2009 by $0.1 million, primarily as a result of an increase in interest expense of $1.3 million, operating costs of $0.7 million and depreciation and amortization of $0.3 million, as well as a decrease in income tax recovery of $0.1 million.

- Revenues increased for the three months ended September 30, 2009 compared to the three months ended June 30, 2009 by $3.0 million. However, net income decreased for the three months ended September 30, 2009 compared to the three months ended June 30, 2009 by $1.7 million, primarily as a result of an increase in operating costs of $1.6 million, an increase in depreciation and amortization of $1.2 million, and a decrease in income tax recovery of $1.9 million, partially offset by the increase in revenue.

FINANCIAL POSITION

The following table outlines the significant changes in the Balance Sheets as at March 31, 2011 as compared to December 31, 2010:

Item	Increase/ (Decrease) ($ millions)	Explanation
Assets:		
Accounts Receivable	(5.0)	The decrease in accounts receivable was primarily due to decreased revenue accruals and accruals for third-party work totaling 5.4, as well as a reduction in trade receivables of 1.5, partially offset by an increase in other receivables of 1.9.
Property, Plant and Equipment (net of accumulated depreciation and the regulatory tax basis adjustment)	46.9	The increase in property, plant and equipment was comprised of net additions (adjusted for cost of removal and proceeds on retired assets) to property, plant and equipment of 69.9, less depreciation of 29.6 (which includes the amount for future removal and site restoration costs recovered through depreciation and is net of regulatory tax basis adjustment amortization of 0.9) and an increase of 6.6 in the provision for future removal and site restoration.
Liabilities:		
Regulatory Liabilities	9.1	The increase in regulatory liabilities is primarily due to the increase of 6.6 in the provision for future removal and site restoration and a 3.0 increase in the Alberta Electric System Operator ("AESO") charges deferral partially offset by a net decrease of 0.5 in the remaining regulatory liabilities.
Future Income Taxes	8.9	Future income taxes increased due to an increase in temporary differences between the carrying value of assets and liabilities and their values for income tax purposes.
Long-term Debt	12.1	The increase was primarily due to an increase of 12.0 in drawings under the syndicated credit facility as well as 0.1 related to the amortization of debenture discounts and transaction costs.

SOURCES AND USES OF LIQUIDITY AND CAPITAL RESOURCES

The Corporation's primary sources of liquidity and capital resources are the following:

- funds generated from operations;
- the issuance and sale of debt instruments;
- bank financing and operating lines of credit; and
- equity contributions from the Corporation's parent.

STATEMENT OF CASH FLOWS

	Three Months Ended March 31		
($ thousands)	2011	2010	Increase/ (Decrease)
Cash, beginning of period	–	–	–
Cash provided from (used in):			
Operating activities	70,164	36,688	33,476
Investing activities	(74,084)	(57,490)	(16,594)
Financing activities	3,920	20,802	(16,882)
Cash, end of period	–	–	–

Operating Activities

For the three months ended March 31, 2011, net cash provided from operating activities was $70.2 million, which was $33.5 million higher than the same period in 2010. Cash receipts were $31.3 million higher than the same period in 2010 primarily due to an increase in cash from net transmission receipts and payments, as well as an increase in distribution rates and customer counts. Cash payments were $1.1 million lower in 2011 compared to the same period in 2010. Further, there was an additional net increase of $1.1 million in cash from operating activities due to the changes in accounts receivable and accounts payable balances relating to transmission and distribution connected projects, goods and services tax ("GST") and other receivables, and cash interest paid.

Management believes that the Corporation will continue to be a rate-regulated entity allowing for recovery of its prudently incurred regulated costs and a reasonable return on equity. In this environment the Corporation should be able to pay all operating costs and interest expense out of operating cash flows, with some residual available for dividend payments to the parent company and/or capital expenditures. If there is continued growth, the Corporation will require additional financing in the form of debt and equity to fund a portion of its capital expenditures. In addition, management expects that the Corporation will continue to provide these distribution services to the customers in its service territory for the foreseeable future and, as such, when the current debt instruments mature the Corporation would be required to issue new debt to repay the principal obligations, as there would still be a requirement for that capital to support the assets of the Corporation. There are no required long-term debt principal repayments in 2011.

Investing Activities

	Three Months ended March 31		
($ thousands)	2011	2010	Increase/ (Decrease)
Capital expenditures			
New customers	35,667	35,964	(297)
Capital upgrades and replacements	19,013	15,082	3,931
Facilities, vehicles and other	14,281	8,791	5,490
Information technology	3,462	2,224	1,238
AESO contributions	9,988	(3,564)	13,552
Gross capital expenditures	82,411	58,497	23,914
Less: customer contributions	(10,520)	(8,989)	(1,531)
Net capital expenditures	71,891	49,508	22,383

The Corporation's utility operations are capital intensive. For the three months ended March 31, 2011, the Corporation had gross capital expenditures of approximately $82.4 million compared to $58.5 million for the same period in 2010. Capital expenditures related to new customers decreased by $0.3 million compared to the same period in 2010, primarily as a result of a decrease in demand for new residential services and irrigation services. Capital expenditures related to capital upgrades and replacements increased by $3.9 million compared to the same period in 2010, primarily as a result of an increase in substation upgrades, capacity increases, system improvements and planned maintenance. Capital expenditures related to facilities, vehicles and other increased by $5.5 million compared to the same period in 2010, primarily as a result of an increase of $4.3 million related to facilities. The main driver of the increased facilities expenditures was the purchase of land and a building in Fort Saskatchewan as well as the construction of a building in High River. In addition, other expenditures related principally to the change in balances of uninstalled transformers increased by $4.0 million in the first quarter of 2011. Vehicle expenditures are down $1.5 million from the first quarter of 2010 due to timing of purchases. In addition, there was a decrease of $1.1 million related to meters and meter equipment. Capital expenditures related to information technology increased by $1.2 million compared to the same period in 2010, primarily as a result of increased spending on software in 2011. Capital expenditures related to AESO Contributions increased by $13.6 million.

It is expected that ongoing capital expenditures will be financed from funds generated by operating activities, drawings on the syndicated credit facility, proceeds from new indebtedness, and equity contributions from Fortis Alberta Holdings Inc.

Cash used in investing activities was $2.2 million higher than net capital expenditures for the three months ended March 31, 2011 as illustrated by the following table:

($ thousands)	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Net capital expenditures	71,891	49,508
Changes in:		
Non-cash working capital	6,766	5,485
Costs of removal, net of salvage proceeds, from the sale of property, plant and equipment and AFUDC	134	3,970
Capitalized depreciation	(1,139)	(1,142)
Materials and supplies	(3,211)	(568)
Change in employee loans	(357)	237
Cash used in investing activities	74,084	57,490

Financing Activities

For the three months ended March 31, 2011, net cash provided from financing activities was $3.9 million, compared to $20.8 million during the same period in 2010. This decrease was primarily due to a $15.7 million decrease in net debt issuances. In addition, dividends paid to Fortis Alberta Holdings Inc. for the three months ended March 31, 2011 were $10.0 million compared to $8.8 million for the same period in 2010. This was partially offset by a decrease of $0.1 million in transaction costs.

The Corporation anticipates it will be able to meet interest payments on outstanding indebtedness from internally generated funds but expects to rely upon the proceeds of new indebtedness to meet the principal obligations when due.

Capital Expenditures

As an electric utility, the Corporation is obligated to provide a safe and reliable service to its customers. The Corporation has forecast total gross capital expenditures for 2011 of approximately $394.3 million including $123.5 million for customer driven capital, $130.9 million for capital upgrades and improvements, $20.3 million for metering, and $119.6 million for other capital. Included in other capital is $14.4 million for information technology, $11.3 million for facilities, $76.5 million for contributions to AESO projects, and $17.4 million relating to other capital projects. In addition, the Corporation expects to receive forecast customer contributions of approximately $31.9 million. These estimates are obtained from detailed forecasts, which are based upon numerous assumptions such as customer demand, weather, cost of labour and material, as well as other factors that could change and cause actual results to differ from these forecasts.

COMMITMENTS

Pension Contribution Obligations

The Corporation makes minimum pension contributions into a defined benefit component of the Corporation's pension plan for certain employees, which according to the Actuarial Valuation for Funding Purposes as at December 31, 2010 amounts to approximately $2.8 million in 2011 and 2012, and $2.3 million in 2013. Future actuarial valuations will establish the funding obligations for subsequent years, which could be materially different depending upon market conditions. The next required funding valuation is expected to be completed as at December 31, 2013.

CAPITAL MANAGEMENT

The Corporation's objectives when managing capital are to ensure ongoing access to capital to allow it to build and maintain the electrical distribution system within the Corporation's service territory. To ensure this access to capital, the Corporation targets a long-term capital structure that includes approximately 59% long-term debt and 41% equity, which is consistent with the Generic Cost of Capital Decision 2009-216. This targeted capital structure is after eliminating the effects of goodwill, the regulatory tax basis adjustment and other items that do not impact the deemed regulatory capital structure. This ratio is maintained by the Corporation through the issuance from time to time of bonds or other evidences of indebtedness, and/or equity contributions by Fortis Alberta Holdings Inc.

Summary of Long-term Capital Structure

	March 31, 2011		December 31, 2010	
	$ millions	%	$ millions	%
Long-term debt[a]	1,094.2	57.2	1,082.2	57.3
Shareholder's equity	818.6	42.8	807.5	42.7
Total	1,912.8	100.0	1,889.7	100.0

Note:

a. *The March 31, 2011, balance does not include transaction costs of $8.6 million (December 31, 2010 – $8.7 million).*

In the management of capital, the Corporation includes shareholder's equity (excluding accumulated other comprehensive income), short-term and long-term debt, and cash and cash equivalents in the definition of capital.

As at March 31, 2011, the Corporation has externally imposed capital requirements by virtue of the Trust Indenture and the syndicated credit facility to which it is subject that limit the amount of debt that can be incurred relative to equity. The Corporation is in compliance with these externally imposed capital requirements as at March 31, 2011.

The Corporation has an unsecured syndicated credit facility with an amount available of $200.0 million, and with the consent of the lenders, the amount can be increased to $250.0 million. The maturity date of this facility is May 2012. Drawings under the syndicated credit facility are available by way of prime loans, bankers' acceptances and letters of credit. Prime loans issued under the syndicated credit facility bear an interest rate of prime. Bankers' acceptances issued under the syndicated credit facility are issued at the applicable bankers' acceptance discount rate plus a stamping fee calculated at 0.375%. The average interest rate for the three months ended March 31, 2011 on the syndicated credit facility was 1.6% (three months ended March 31, 2010 - 0.8%). As at March 31, 2011, there were $35.0 million in drawings under the facility for banker's acceptances (December 31, 2010 - $23.0 million), and there was $56.6 million drawn in letters of credit (December 31, 2010 - $56.6 million).

An unsecured demand facility of $10.0 million was available to the Corporation as at March 31, 2011. This facility bears an interest rate on all drawings equal to prime. There were $5.3 million in drawings on this facility as at March 31, 2011 (December 31, 2010 - $1.9 million), which were included in short-term debt.

OUTSTANDING SHARES

Authorized – unlimited number of:

- Common shares
- Class A common shares
- First Preferred non-voting shares, redeemable, cumulative dividend at 10% of the redemption price. Subject to applicable law, the Corporation shall have the right to redeem, at any time, all or any part of the then outstanding first preferred shares for $348.9 million together with any accrued and unpaid dividends up to the redemption date.

Issued – 63 Class A common shares, with no par value.

RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation transacts with its parent and other related companies under common control. The amounts included in accounts receivable and accounts payable for related parties were measured at the exchange amount and are as follows:

($ thousands)	Included in Accounts Receivable		Included in Accounts Payable	
	March 31, 2011	December 31, 2010	March 31, 2011	December 31, 2010
FortisBC Inc.	5	76	8	7
Fortis	–	12	604	594
Fortis Turks and Caicos Inc.	395	15	–	–
Housing loans to officers of the Corporation[a]	750	750	–	–
Stock option loans to officers of the Corporation[b]	167	814	–	–
Employee share purchase plan loans to officers of the Corporation[c]	43	14	–	–
Employee computer loans to officers of the Corporation[d]	2	1	–	–
	1,362	1,682	612	601
Less: current portion	444	117	612	601
Long-term portion	918	1,565	–	–

Notes:

a. *The Corporation has granted housing and relocation loans to officers of the Corporation. The loans are interest-free for a period of three to six years from the loan grant date after which interest will accrue at the rate of prime plus 0.5%. The total amount of the loans must be repaid within 10 years of the loan grant date. The loans are secured by mortgages on the residences purchased by the officers.*

b. *The Corporation has granted stock options loans to officers of the Corporation for purposes of exercising their Fortis stock options. Each loan bears interest equal to the amount of the dividends received on the shares. The total amount of each loan must be repaid within 10 years of the loan grant date. Each loan is secured by the share certificates held by the officer.*

c. *The amounts receivable under the employee share purchase plan are for loans to officers of the Corporation under the employee share purchase plan. These loans are taken on an interest-free basis and must be repaid in full within one year of the share purchase date.*

d. *The amounts receivable under the computer loans are for loans to officers of the Corporation under the employee personal computer purchase program. These loans are taken on an interest-free basis and must be repaid in full within three years of the loan issue date.*

The Corporation bills related parties on terms and conditions consistent with billings to third parties. These require amounts to be paid on a net 30 day basis with interest on overdue amounts charged at a rate of 1.5% per month (19.56% per annum). Terms and conditions on amounts billed to the Corporation by related parties are net 30 days with interest being charged on any overdue amounts.

The amounts included in other revenue and operating costs for related parties for the three months ended March 31, 2011 and 2010 were measured at the exchange amount and are as follows:

($ thousands)	Included in Other Revenue		Included in Operating Costs	
	March 31, 2011	March 31, 2010	March 31, 2011	March 31, 2010
FortisBC Inc.	43	40	8	6
Fortis	–	3	740	624
FortisBC Pacific Holdings Inc.	3	8	–	–
Fortis Properties Inc.	–	–	–	2
Fortis Turks and Caicos Inc.	380	–	–	–
Maritime Electric Company, Limited	–	2	–	–
FortisBC Holdings Inc.	–	–	1	–
FortisOntario Inc.	–	–	4	–
Total	426	53	753	632

FortisBC Inc. – billed the Corporation in 2011 for charges consisting of pension costs, as well as travel and accommodation expenses for board meetings, air fare and meals. In 2011, the Corporation provided metering services, employee services, information technology services and material sales to FortisBC Inc.

Fortis – billed the Corporation in 2011 for charges relating to corporate governance expenses, stock-based compensation costs, subscription expenses, consulting services, and travel and accommodation expenses.

FortisBC Pacific Holdings Inc. (formerly Fortis Pacific Holdings Inc.) – received metering services from the Corporation in 2011. Fortis Pacific Holdings Inc. was renamed to FortisBC Pacific Holdings Inc. effective March 1, 2011.

Fortis Turks and Caicos Inc. – received employee services from the Corporation in 2011.

FortisBC Holdings Inc. (formerly Terasen Inc.) – billed the Corporation in 2011 for employee services. Terasen Inc. was renamed to FortisBC Holdings Inc. effective March 1, 2011.

FortisOntario Inc. – billed the Corporation in 2011 for charges relating to travel and accommodation expenses for board meetings.

All services provided to or received from related parties were billed on a cost-recovery basis.

FINANCIAL INSTRUMENTS

Designation and Valuation of Financial Instruments

CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, requires an entity to designate its financial instruments into one of the following five categories: 1) loans and receivables, 2) assets held-to-maturity, 3) assets available-for-sale, 4) other financial liabilities, and 5) held-for-trading assets and liabilities. The Corporation did not designate any of its financial assets or liabilities as held-to-maturity, available-for-sale or held for trading as at March 31, 2011.

The Corporation has elected to designate its financial instruments as follows:

($ thousands)	March 31, 2011		December 31, 2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Loans and receivables				
Accounts receivable (short-term)[(a)(b)]	109,823	109,823	113,748	113,748
Accounts receivable (long-term)[(a)]	949	949	1,584	1,584
Other financial liabilities				
Accounts payable and accrued liabilities[(a)(c)]	129,111	129,111	133,760	133,760
Short-term debt[(a)]	11,285	11,285	9,352	9,352
Long-term debt[(d)(e)]	1,094,205	1,201,311	1,082,207	1,223,015

Notes:

a. *Due to the nature and/or short maturity of these financial instruments, carrying value approximated fair value.*

b. *The December 31, 2010 balance does not include GST receivable of $0.4 million.*

c. *Included within accounts payable, accrued and other liabilities in the Balance Sheet. The March 31, 2011 balance does not include GST payable of $0.8 million.*

d. *The March 31, 2011 balance does not include transaction costs of $8.6 million (December 31, 2010 - $8.7 million).*

e. *The fair value of the long-term debt is estimated based on the quoted market prices for the same or similarly rated issues for debt of the same or similar remaining maturities.*

Derivatives

The Corporation currently does not have any stand-alone derivative instruments as defined under Section 3855. The Corporation conducted a review of contractual agreements for embedded derivatives.

Under Section 3855, an embedded derivative must meet three specific criteria to be accounted for under the Section. For contracts entered into by the Corporation, all potential embedded derivatives reviewed by the Corporation were closely related with the economic characteristics and risks of the underlying contract, had no notional amount that could be used to measure the instrument, or had no value.

Risk Management

Exposure to counterparty credit risk, interest rate risk and liquidity risk arises in the normal course of the Corporation's business. The Corporation currently does not enter into derivative financial instruments to reduce exposure to fluctuations in any of the risks impacting the Corporation's operations. The Corporation enters into financial instruments to finance the Corporation's operations in the normal course of business.

Counterparty Credit Risk

The Corporation defines counterparty credit risk as the financial risk associated with the non-performance of contractual obligations by counterparties. The Corporation extends credit to select counterparties in its role as an electrical system distribution provider.

The Corporation monitors its credit exposure in accordance with the Terms and Conditions of Distribution Access Service as approved by the AUC. The following table provides information on the counterparties that the Corporation extends credit to with respect to its distribution tariff billings as at March 31, 2011.

Credit Rating	Number of Counterparties	Gross Exposure ($ thousands)	Exposure ($ thousands)
AAA to AA (low)	1	1,735	–
A (high) to A (low)	8	4,794	–
BBB (high) to BBB (low)	9	16,282	–
Not rated	32	102,458	4,761
Total	50	125,269	4,761

Gross exposure represents the projected value of retailer billings over a 60-day period. As outlined in the Terms and Conditions of Distribution Access Service, the Corporation is required to minimize its gross exposure to retailer billings by obtaining an acceptable form of prudential. These acceptable forms of prudential include a cash deposit, bond, letter of credit, an investment grade credit rating from a major rating agency, or a financial guarantee from an entity with an investment grade credit rating.

Retailers with investment grade credit ratings have the exposure shown as nil since the rating serves to reduce the amount of prudential required under the Terms and Conditions of Distribution Access Service. For retailers that do not have an investment grade credit rating, the exposure is calculated as the projected value of billings over a 60-day period less the prudential held by the Corporation.

Volatility in the global capital markets and a slowdown in the Alberta economy could cause the credit quality of some of the Corporation's customers to decrease. In the event that the prudential obtained by the Corporation under the Terms and Conditions of Distribution Access Service is not sufficient to cover a loss due to non-payment from the Corporation's counterparties, the Corporation would review all other options available to collect the non-payment. However, these options would not ensure that a loss could be avoided by the Corporation.

No allowance for doubtful accounts has been recorded by the Corporation. The aging analysis of the Corporation's accounts receivable is as follows:

($ thousands)	March 31, 2011
Not past due	108,434
Past due 0-60 days	887
Past due 61 days and over	502
	109,823

Interest Rate Risk

The Corporation defines interest rate risk as the financial risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation's debentures bear fixed interest rates, thereby minimizing cash flow variability due to interest rate exposures. The fair value of the fixed rate debentures fluctuates as market interest rates change. However, the Corporation plans to hold these debentures until maturity and applies in its rate applications to recover the actual interest rates on the debentures, thereby mitigating the risk of these fluctuations. The drawings under the Corporation's syndicated credit facility are at current market short-term interest rates, exposing the Corporation to some cash flow risk, but minimal fluctuations in fair value.

A change in the Corporation's interest rates results in interest rate exposure for drawings under the syndicated credit facility. The Corporation has determined that a change in interest rates of an increase of 200 basis points and a decrease of 25 basis points represents a reasonably possible financial risk, and has prepared the following sensitivity analysis to represent the impacts of a change on net income for the three months ended March 31, 2011:

($ thousands)	Three months ended March 31, 2011	
	25 basis point decrease	200 basis point increase
Increase (decrease) in net income	17	(136)

Further, changes to the credit rating of the Corporation also represent a financial risk. The Corporation has debt facilities, which have interest rate and fee components that are sensitive to the credit rating of the Corporation. The Corporation is rated by Moody's Investors Service ("Moody's"), Dominion Bond Rating Service Limited ("DBRS") and Standard and Poor's ("S&P") and a change in rating by any of these rating agencies could potentially increase or decrease the interest expense of the Corporation.

As at March 31, 2011, the Corporation was rated by Moody's at Baa1, by S&P at A-, and by DBRS at A (low). A downward one notch change in the rating by any of DBRS, Moody's or S&P on January 1, 2011 could potentially have increased interest expense under these debt facilities by approximately $18 thousand for the three months ended March 31, 2011. An upward one notch change in the rating by any of DBRS, Moody's or S&P on January 1, 2011 could potentially have decreased interest expense under these debt facilities by approximately $14 thousand for the three months ended March 31, 2011.

Liquidity Risk

The Corporation defines liquidity risk as the financial risk that the Corporation will encounter challenges in meeting obligations associated with financial liabilities. The Corporation anticipates it will be able to meet interest payments on outstanding indebtedness from internally generated funds but expects to rely upon the proceeds of new indebtedness to meet the principal obligations when due.

Volatility experienced in the global capital markets may increase the cost of issuance of long-term capital by the Corporation. Capital market volatility may also impact the Corporation's future funding obligations and/or pension expense associated with its defined benefit pension plan. There are a number of risks associated with the Corporation's defined benefit pension plan including: 1) there is no assurance that the Corporation's defined benefit pension plan will earn the assumed rate of return, 2) market driven changes may result in changes in the discount rates and other variables, which would result in the Corporation being required to make contributions in the future that differ from the estimates, and 3) there is measurement uncertainty incorporated into the actuarial valuation process. These risks are expected to be mitigated as the Corporation makes application in rates to collect from customers the actual cash payments into the Corporation's defined benefit pension plan and defined contribution pension plans. Therefore, an increase or decrease in the Corporation's future funding obligations and/or pension expense associated with either plan is expected to be collected or refunded in future rates, subject to forecast risk. In December 2009, the defined benefit assets were invested in a 100% long-term bond fund, which significantly reduces the forecast risk on future defined benefit funding obligations.

The Corporation's outstanding financial liabilities as at March 31, 2011, include short-term debt, accounts payable and accrued liabilities, and long-term debt. The Corporation expects to settle its financial liabilities relating to short-term debt and accounts payable and accrued liabilities in accordance with their contractual terms of repayment, which are generally within one year.

The following table summarizes the number of years to maturity of the principal outstanding and interest payments on the Corporation's long-term debt, which is composed of drawings on the syndicated credit facility and senior unsecured debentures, as at March 31, 2011:

($ thousands)	1–5 Years	6–10 Years	> 10 Years	Total
Drawings on the syndicated credit facility [(a)(c)]	35,000	–	–	35,000
Senior unsecured debentures [(b)(c)]				
- Principal payments	200,000	–	860,000	1,060,000
- Interest payments	287,398	244,758	937,567	1,469,723
Total	522,398	244,758	1,797,567	2,564,723

Notes:

a. *The Corporation's syndicated credit facility has a maturity date of May 2012. The drawings under the syndicated credit facility as at March 31, 2011 are bankers' acceptances, which have their own contractual maturity dates. The amounts shown above reflect the principal and interest due when the current bankers' acceptances mature. This balance will fluctuate between March 31, 2011 and the maturity date of the syndicated credit facility.*

b. *The March 31, 2011 balance does not include transaction costs of $8.6 million.*

c. *Payments are shown after amortization of discounts.*

SIGNIFICANT ACCOUNTING ESTIMATES

Certain estimates are necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until finalization and adjustments, if any, are determined pursuant to subsequent regulatory decisions or other regulatory proceedings. Due to the inherent uncertainty in making such estimates, actual results reported in future periods could differ materially from those estimated. In addition, certain estimates not associated with regulatory decisions are also subject to finalization and adjustments. There were no material changes to the items that the Corporation's significant accounting estimates apply to during the period ended March 31, 2011 from those disclosed in the MD&A for the year ended December 31, 2010. Interim financial statements necessarily employ a greater use of estimates than the annual financial statements.

FUTURE CHANGES IN ACCOUNTING POLICIES

Adoption of New Accounting Standards

The pace and outcome of the International Accounting Standards Board's ("IASB") project with respect to rate-regulated activities have put Canadian rate-regulated entities at a significant disadvantage in terms of their ability to adopt IFRS as of January 1, 2011. Accordingly, the Canadian Accounting Standards Board ("AcSB") has provided qualifying entities with an option to defer their changeover to International Financial Reporting Standards ("IFRS") by one year. The necessary amendments to the CICA Handbook were published by the AcSB in October 2010.

While the Corporation's IFRS Conversion Project has proceeded as planned in preparation for the adoption of IFRS on January 1, 2011, the Corporation qualifies for the optional one-year deferral and, therefore, will continue to prepare its financial statements in accordance with Part V of the CICA Handbook for all interim and annual periods ending on or before December 31, 2011.

Due to the continued uncertainty around the timing and adoption of a rate-regulated accounting standard by the IASB, the Corporation is currently evaluating the option of adopting Generally Accepted Accounting Principles in the United States ("US GAAP") effective January 1, 2012.

The Corporation's application of Canadian GAAP currently is based on principles generally consistent with US GAAP for guidance on accounting for rate-regulated activities, which allows the economic impact of rate-regulated activities to be recognized in the financial statements in a manner consistent with the timing by which amounts are reflected in customer rates.

The Corporation has developed a three-phase plan to evaluate the option of adopting US GAAP effective January 1, 2012. The following is an overview of the activities under each phase, and their current status.

Phase I - Scoping and Diagnostics: This phase consists of project initiation and awareness; project planning and resourcing; identification of high-level differences between US GAAP and Canadian GAAP to highlight areas were detailed analysis is needed to determine and conclude as to the nature and extent of impacts. External accounting and legal advisors were engaged during this phase to assist the Corporation's internal US GAAP conversion team and to provide technical input and expertise as required. Phase I is scheduled for completion by mid-2011.

Phase II - Analysis and Development: This phase consists of detailed diagnostics and evaluation of the financial impacts of adopting US GAAP based on the high-level assessment conducted under Phase I; the registration of securities as required to achieve US Securities and Exchange Commission issuer status; identification and design of any new operational or financial business processes; and development of required solutions to address identified issues. Phase II of the plan is scheduled for completion by the fall of 2011.

Phase III - Implementation and Review: This phase consists of implementation of the changes required by the Corporation to prepare and file its financial statements based on US GAAP beginning in 2012 and communication of the associated impacts. Phase III is expected to conclude by year end 2011, if the Corporation pursues the plan and issues its first annual audited US GAAP statements for the year ended December 31, 2012. Commencing in the first quarter of 2012, the plan to evaluate this option would have the Corporation's unaudited interim financial statements prepared in accordance with US GAAP.

BUSINESS RISK

Legal Proceedings

The Corporation is subject to various legal proceedings and claims that arise in the ordinary course of business operations. The Corporation believes that the amount of liability, if any, from these actions would not have a material effect on the Corporation's financial position or results of operations.

OUTLOOK

The AUC has initiated a process to reform utility rate regulation in Alberta. The AUC has expressed its intention to apply a performance based regulation ("PBR") formula to distribution service rates. A PBR regime can create incentives for a utility to improve efficiencies similar to a competitive market and to share in economic and/or other benefits with customers. The Corporation is currently assessing PBR and will participate fully in the AUC process.

On March 31, 2011, FortisAlberta filed its 2012/2013 distribution tariff application, or DTA. The Corporation is requesting approval of revenue requirements of $410.3 million in 2012 and $447.0 million in 2013, for rate increases of 8.2% and 6.9%, respectively. The rate increases are driven primarily by rate base growth associated with capital expenditures, which result in increased depreciation, interest and return on equity requirements. Net capital expenditures are forecast to be $379.5 million and $325.5 million in 2012 and 2013 respectively. The Corporation proposed a schedule for the DTA proceeding that would include a hearing in late October with a final decision expected in the first quarter of 2012.

Per Decision 2010-554, the AUC initiated a proceeding in respect of the Review and Variance Application to determine the prudence of capital expenditures related to the metering project above $104.3 million. A decision is expected in the second quarter of 2011.

The regulated ROE for 2011 was approved as 9.0% on an interim basis in AUC Decision 2009-216. The AUC issued a Notice of Commission-Initiated Proceeding on December 16, 2010 to finalize the 2011 ROE and capital structure and consider whether a return to a formula-based approach for setting ROE beginning in 2012 is warranted. In the absence of a formula-based approach, the Commission is expected to consider how the ROE will be set for 2012. The Corporation submitted evidence in conjunction with a group of Alberta utilities in the first quarter. The hearing is scheduled to commence in the second quarter.

On October 1st, 2010, the CAREA filed an Application with the AUC requesting that, for the purposes of Sections 25 and 26 of the Hydro Electric Energy Act, regarding service areas, effective January 1, 2012, CAREA be entitled to serve any new customer in the overlapping CAREA Service Area that wishes to obtain electricity for use on such customer's property; and that the Corporation be restricted to providing electric distribution service in the CAREA Service Area only to a consumer in that service area who is not being provided service by CAREA. The Corporation has intervened in the proceeding and management believes that the CAREA application is not supportable at law.

Note: Additional information concerning FortisAlberta Inc. including the Annual Information Form (AIF) is available on SEDAR at www.sedar.com.